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February 4, 2008

## VIA EMAIL AND OVERNIGHT DELIVERY

Mr. Jeff Jordan  
Ms. Ana Pena-Wallace  
Federal Election Commission  
General Counsel's Office  
999 E Street at NW  
Washington, DC 20463

MUR # 5971

RECEIVED  
FEDERAL ELECTION  
COMMISSION  
OFFICE OF GENERAL  
COUNSEL  
2008 FEB -5 P 4: 22

Re: Lindsey Graham for Senate (C00364505)

Dear Mr. Jordan and Ms. Wallace:

Pursuant to the Federal Election Commission's Policy Regarding Self-Reporting of Campaign Finance Violations (*Sua Sponte* Submissions), attached are the original and three copies of a *Sua Sponte* Report regarding matters related to Lindsey Graham for Senate ("LGFS"). In the course of preparing this submission, LGFS has been in contact with Ms. Pena-Wallace in the Office of General Counsel and, at her request, we address this submission to both of you.

By way of background, this submission follows a series of amendments to disclosure reports filed by LGFS on October 2, 2007, identifying multiple unauthorized transactions made by a former campaign employee. The former employee, Ms. Jennifer Adams, was terminated in June 2007, and information discovered by LGFS regarding her unauthorized activities was turned over to law enforcement. Based upon that information and the resulting criminal investigation, the State of South Carolina has charged Ms. Adams with five counts of breach of trust with fraudulent intent and one count of financial identity fraud. Ms. Adams' criminal case is still pending, and LGFS continues to cooperate fully with law enforcement.

As the criminal case against Ms. Adams is still pending, we would respectfully request that this *Sua Sponte* Report be given confidential treatment so as not to interfere with law enforcement proceedings or adversely affect Ms. Adams' right to a fair trial and impartial jury.

Finally, we greatly appreciate the opportunity provided by the Commission's policy regarding *sua sponte* submissions and would like to express our gratitude to the Commission's staff for

Mr. Jeff Jordan  
Ms. Ana Pena-Wallace  
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their most professional assistance during this process. Everyone we have dealt with has been helpful, and we very much appreciate the courtesy and professionalism extended to us.

If you should have any questions or need any additional information, please do not hesitate to contact me at (803) 255-9522.

With kind regards, I am,

Sincerely yours,

A handwritten signature in black ink, appearing to read "Kevin A. Hall", written over a horizontal line.

Kevin A. Hall  
General Counsel and Treasurer, LGFS

KAH/LED  
Enclosure

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Re: Lindsey Graham for Senate (C00364505)

Dear Mr. Jordan and Ms. Pena Wallace:

Pursuant to the Federal Election Commission ("FEC" or "the Commission") Policy Regarding Self-Reporting of Campaign Finance Violations (*Sua Sponte* Submissions),<sup>1</sup> the Lindsey Graham for Senate Committee ("the Committee") offers the following *Sua Sponte* Submission.<sup>2</sup> This Self-Report details inaccuracies and omissions in the Committee's public filings that resulted from actions of a former employee who manipulated accounting records and public reports to disguise his unlawful unbenefitment of campaign funds. The Committee notified the FEC and appropriate law enforcement agencies upon discovery of accounting discrepancies, has kept appropriate officials informed of the progress of its investigation, and

<sup>1</sup> 72 Fed. Reg. 16,695 (April 5, 2007).

<sup>2</sup> As detailed within, the Committee has been in regular communication with the Commission regarding a fraudulent pattern of conduct perpetrated by its former employee, Ms. Mary Jennifer Adams. The Committee has provided the Commission and the public with updated information via a series of amendments to campaign finance reports, the accuracy of which was affected by Ms. Adams' conduct. By submitting this Self-Report in accordance with the Commission's regulations, the Committee endeavors to provide a detailed narrative regarding its investigation, factual findings, and actions taken with regard to the fraud. To the extent that note 1 to the Commission's Policy Regarding Self-Reporting requires that *sua sponte* submissions such as this one be deemed "Complaints" for purposes of the Commission's administrative process, the Committee alternatively nominates this a "Complaint" with Ms. Adams being the "Respondent."

has filed amended public reports based on information discovered to date. Having amended its public filings to correct known errors caused by the embezzlement, the Committee, through the undersigned, Committee Treasurer Kevin A. Hall, appreciates the opportunity to provide the Commission with narrative information about the fraud, its discovery, and the actions the Committee and law enforcement have taken and expect to take in the wake of Ms. Adams' breach of trust.<sup>3</sup>

## I. BACKGROUND INFORMATION AND KEY PLAYERS

Lindsey O. Graham was elected to represent the people of South Carolina's Third Congressional District in November 1994 and served as a United States Representative until January 2003. In 2002, then-Representative Graham successfully ran for election to the United States Senate. During the current 2008 election cycle, Senator Graham seeks re-election to that seat.

To understand the narrative that follows, a brief description of key players is in order. Set forth below is a brief description of most individuals discussed in this Self-Report and the dates of their involvement in the campaign process:

**Kevin A. Hall:** Committee's Treasurer from 2005 through the present.

**Scott Farmer:** Committee's Campaign Manager; Records Custodian and Assistant Treasurer from 2005 through the present.

**Denise Bauld:** Long-time member of Senator Graham's campaign staff in various roles since 1994; Manager of the 2002 Senate Campaign; currently Senior Adviser for campaign and staff member of official Senate office whose duties include scheduling and acting as Senator Graham's health-care liaison.

**Richard Perry:** Senator Graham's Chief-of-Staff for official Senate office.

**Nell Byerley:** Committee's Treasurer from 2001 through 2004; also Treasurer for Committee to Elect Lindsey Graham during Graham's Congressional tenure. Mr. Byerley is now deceased.

**Jennifer Adams:** formerly the Committee's Campaign Administrator and Assistant Treasurer; admitted to misappropriating campaign funds for her own use (Ms. Adams' handwritten letter of apology to Richard Perry, Senator Graham's Chief-of-Staff, is attached as Exhibit A.) Ms. Adams worked with the *Seneca Daily Messenger* before joining the Committee to Elect Lindsey Graham ("CELG") staff during the 1994 election cycle. In 1994, then-Campaign Manager David Woodard asked Ms. Adams to join the CELG staff to assist with graphic design and advertising. After that election, CELG's bookkeeper, Lynn Dunlap, left CELG and took a position in the congressional office of then-Representative Graham, leaving Ms. Adams as the only remaining full-time staff member of CELG in the Seneca office. Denise Bauld joined the campaign in a full-time role in 1995 but never had duties related to the finances of CELG. Ms. Adams became Assistant Treasurer and took over CELG's bookkeeping duties while Mr. Byerley continued to serve as

<sup>3</sup> For clarity's sake, this letter is written in third-person.

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Treasurer. Ms. Adams remained the CELG bookkeeper and Assistant Treasurer and transitioned those roles to the Lindsey Graham for Senate Committee when then-Representative Graham sought election to the Senate in 2002. During the 2002 election cycle, Ms. Adams took on additional office-manager duties under the title Campaign Administrator. Senator Graham was elected to his first term in the U.S. Senate in November 2002. After the election, Ms. Adams continued to work in a part-time role as Campaign Administrator and as the Committee's Assistant Treasurer and bookkeeper. Between 2003 and 2004, in addition to working as a part-time employee of the campaign staff, Ms. Adams worked in the Senator's official Senate office as Deputy Press Secretary. Ms. Adams ceased working for the Committee in any capacity in November 2006.

## **II. NEW OFFICERS' DETAILED REVIEW OF FINANCIAL RECORDS LED TO THE DISCOVERY OF FRAUDULENT ACTIVITY.**

### **A. 2005 Changing of the Guard and Resulting Financial Review**

In January 2005, the Lindsey Graham for Senate Committee ("the Committee") underwent a significant internal reorganization in which it relocated its base of operations from Seneca, South Carolina to Columbia, South Carolina and appointed a new Treasurer, Assistant Treasurer, and Custodian of Records. Kevin A. Hall became Treasurer and Scott Farmer, the Committee's Finance Director, was named Assistant Treasurer and Custodian of Records. In these capacities, Mr. Farmer and Mr. Hall assumed responsibility for managing the Committee's financial operations, maintaining its records, and preparing the Committee's disclosure reports. As part of this reorganization, Mr. Farmer, a full-time employee of the Committee, sought input from several Certified Public Accountants and controllers of non-profit organizations about proper internal controls. In coordination with Mr. Hall and with his approval, Mr. Farmer implemented their suggestions regarding internal controls, as described more fully below, and instituted policies governing all aspects of the Committee's finances and recordkeeping procedures.

In order to effectuate the transfer of the financial responsibilities from the Seneca office to the Columbia office, Mr. Farmer and Mr. Hall requested that the former Assistant Treasurer, Ms. Mary Jennifer Adams, gather all Committee records and send them to Mr. Farmer in the Columbia office. The Committee opened a new checking account at the Columbia branch of BB&T in which most of the Committee's cash-on-hand was transferred. A small amount of money was left in the Community First account to cover any then-outstanding checks. Mr. Farmer instructed Ms. Adams to monitor the Community First account and close it as soon as all outstanding checks drawn on that account had cleared.

Messrs. Hall and Farmer began their duties by organizing and reviewing available financial records to obtain a thorough understanding of the Committee's finances. In their efforts to compile all relevant information for this transitional review, however, they realized that they did not have a complete set of financial records. Some of the records were missing because they had been ruined by water damage caused by minor flooding in the Seneca office or were

discarded during the clean-up of that water damage.<sup>4</sup> When asked for records that had not been sent to Columbia, Ms. Adams often explained that the requested records had been destroyed by the flood. In response to requests for some information, she claimed that the FEC had given the Committee permission to destroy certain documents after the Commission's audit of the Committee's books was complete.<sup>5</sup> In response to other requests, Ms. Adams assured Messrs. Hall and Farmer that she was working to locate the records and that she would send them when she found them. Ms. Adams frequently explained that she had not had sufficient time to respond or that she had been unable to locate certain requested documents. Because they were not satisfied that they could have a full understanding of the Committee's financial operations without a complete review of financial records related to Mr. Byerley's tenure as Committee Treasurer, Messrs. Hall and Farmer determined that they should reconstruct the Committee's records for the 2008 election cycle. They did not suspect any wrongdoing or misappropriation of any kind on the part of Ms. Adams or anyone else.

To accomplish this reconstruction, Messrs. Hall and Farmer began requesting copies of all of bank records dating from November 2002 forward. These requests for records went on through most of 2006, and the compilation and review process continued through mid-2007. Because many of the requested records predated the bank's electronic record system, it was a time consuming process. Bank staff had to manually retrieve micro-film records, locate the specific records pertaining to the Committee, and then copy those records one-by-one. As a result, it took many months for Messrs. Hall and Farmer to receive all records necessary to restate a banking and accounting history for the several year period. The inherent difficulty of constructing this type of reconstruction is evident in the Committee's correspondence with the FEC in response to the Commission's routine requests for information. For example, on or about September 19, 2006, the Commission requested information regarding several reports. (See Exhibits B and C.) Because it was still engaged in compilation and review of its financial records, the Committee could not provide the Commission with complete responses to those requests. On October 13, 2006, and again on October 16, 2006, Messrs. Hall and Farmer contacted Ms. Lauren Lien, the FEC analyst who had sent the September 2006 request for information. Messrs. Hall and Farmer explained that, because the Committee was in the midst of its review, it was unable to provide the Commission with a complete and accurate response to the Commission's request for information. Through Messrs. Hall and Farmer, the Committee regularly communicated with the FEC, through Ms. Lien, regarding the progress of their internal review. They updated the Commission with regard to the difficulties they were encountering in obtaining complete banking records, and they advised the Commission with regard to the steps they were taking to ensure the accuracy of the Committee's reports on file with the Commission. Examples of such communications are illustrated by Exhibits D, E, and F letters dated October 19, 2006; January 12, 2007; and April 20, 2007.

<sup>4</sup> The Seneca office was flooded in April 2005 by a sewage pipe that was installed incorrectly, and some records were destroyed or thrown out in the clean-up of that event. Messrs. Hall and Farmer remain unsure what records were destroyed by that event.

<sup>5</sup> The FEC-conducted audit of the Committee's 2001-2002 records did not reveal any major discrepancies or otherwise indicate any misappropriations or unauthorized transactions. Those results contributed to the Committee's comfort-level with Ms. Adams' honesty.

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Unbeknownst to Messrs. Hall and Farmer, the Committee's review was being thwarted by Ms. Adams, as well. As the Committee's former Assistant Treasurer and because of her location in Seneca, Ms. Adams was the logical person to request and obtain historical records from Community First Bank in Seneca. Mr. Farmer made numerous requests to Ms. Adams for information. Though she assured Mr. Farmer that she was working to obtain relevant records, Ms. Adams was purposefully delaying the review process by representing to Mr. Farmer or Mr. Hall that records had been requested but not yet received from the bank. As their investigation would later reveal, Ms. Adams, in fact, was in possession of much of the requested information, but she did not make it available to Messrs. Hall and Farmer. It was not until approximately December 2006 that Mr. Farmer, frustrated by the delays and apparent sloppiness and/or incompetence of Ms. Adams,<sup>6</sup> contacted the bank and informed them that all Committee contact henceforth would be conducted by and through him and that all correspondence should be sent directly to the Columbia office where he and Mr. Hall would have unfettered access to the records received.

**B. The Systematic Review of Financial and Reporting Records Revealed Questionable Transactions.**

Once Mr. Farmer and Mr. Hall received the necessary information from the bank to conduct a systematic review of the Committee's financial history, they, with the part-time assistance of campaign staff assistant Meghan Hughes, began a detailed reconciliation of the Committee's financial records. This process involved an item-by-item review of each contribution and disbursement entered in the Committee's computer software program used for FEC compliance and comparison of those entries to bank statements from Community First Bank covering the corresponding time periods. In the early stages of this reconciliation process, Mr. Farmer and Ms. Hughes identified minor discrepancies (such as errors caused by transposition of digits) that appeared to be attributable to human error. These mistakes appeared to be clerical in nature and lent themselves to easy correction by way of amendments to campaign finance reports on file with the FEC. As the reconciliation process continued, however, Messrs. Farmer and Hall and Ms. Hughes also discovered some discrepancies that were not so readily explainable.

**1. The Committee Discovered Multiple Salary Payments to Ms. Jennifer Adams.**

The reconciliation process revealed that, in some months, Ms. Adams received more than one payment of "salary" and that "bonuses" also were paid to Ms. Adams at what appeared to be unusual times. As a result, Messrs. Hall and Farmer ran ledger reports listing all payments to each of the Committee's then-employees: Ms. Adams, Mr. Farmer, and Ms. Denise Bauld, who worked full-time during the 2001-2002 campaign as Campaign Manager and part-time

<sup>6</sup> Messrs. Hall and Farmer believed Ms. Adams had become sloppy in her organization and bookkeeping, but they did not suspect anything untoward. At the time, Ms. Adams' long tenure with the Committee and the close camaraderie between all Committee staff gave them no reason to suspect Ms. Adams was guilty of anything other than not performing her job's duties to the best of her ability.

from 2003 through the present as the Committee's Senior Advisor. When they reviewed the printout listing disbursements to Ms. Adams and compared that printout to the partial bank statements and partial copies of cancelled checks then in their possession, they concluded that they needed to ask Ms. Adams if she could explain the payment transactions they had discovered. For example, although Ms. Adams was to receive her salary from the campaign on a monthly basis, two checks were made payable from the Committee to Ms. Adams in January 2003 for what appeared to be monthly salary: Check 2272 for \$3385.75, dated January 20, 2003, and noted to be Ms. Adams' January salary; and Check 2289 for \$3385.00, dated February 6, 2003, also noted to be her January salary. (Compare page 1 of Exhibit G with page 2 of that Exhibit.)

In or around early November 2006, Mr. Farmer spoke with Ms. Adams and inquired as to why she had received multiple salary checks on several occasions. Ms. Adams responded as follows, or with words of similar effect: "I was hurting for money, and he [Senator Graham] said I could have a little extra." Mr. Farmer and Mr. Hall were not persuaded by her response, but they still did not have access to complete banking records, nor had they been privy to any alleged salary conversations Ms. Adams claimed to have had with Senator Graham. As a result, they continued to question her explanation and inquired of Denise Bauld whether Ms. Adams' explanation could be accurate. Ms. Bauld did not think the explanation was true, but she also acknowledged that such a conversation could have taken place without her knowledge.

On or around November 19, 2006, Mr. Farmer and Ms. Bauld were meeting with Senator Graham and Richard Perry at the Clarion Town House Hotel in Columbia. That evening, Mr. Farmer gave Ms. Bauld and Mr. Perry an impromptu briefing regarding the status of the account reconciliation then underway. When Mr. Farmer shared Ms. Adams' explanation for her receipt of multiple salary checks in some months, neither Ms. Bauld nor Mr. Perry believed it likely that Senator Graham would have authorized such additional salary payments and suggested that direct follow-up with Senator Graham was necessary. When Senator Graham was asked whether he had authorized Ms. Adams to pay herself additional "salary" amounts in several months, he responded that he had never discussed extra salary payments with Ms. Adams, nor had he authorized multiple payments of salary to Ms. Adams in any month.

Because they were still missing several potentially key bank statements and copies of cancelled checks, all agreed that they needed to have all of the correct documentation to support further actions.

## **2. Review of Reported Vendor Disbursements Reveals Fraud.**

Faced with what appeared to be a serious problem that might require law enforcement involvement and personnel action by Senator Graham's office (where Ms. Adams was then employed), Mr. Farmer, in almost daily consultation with Mr. Hall, worked diligently to review and compare additional records to determine whether there were other possible misappropriations by Ms. Adams. During this review, Mr. Farmer discovered several



discrepancies between checks logged as payments to vendors and the actual cancelled checks for such payments.

For example, in reviewing a November 1, 2002 disbursement of \$11,250.00 to Richard Quinn & Associates for "Inv. 2002 additional card mail" that had been reported to the FEC (see Exhibit H),<sup>7</sup> Messrs. Hall and Farmer were unable to locate a corresponding cancelled check confirming that such payment, in fact, had been made to Richard Quinn & Associates. The bookkeeping information maintained by the campaign suggested that such a disbursement had been made to Richard Quinn & Associates via check number 2179. (See Exhibit I, Screen Print from Aristotle with Quinn disbursement entry highlighted.) However, cancelled check number 2178 indicated that that same amount (\$11,252.00) was made payable to, and was endorsed and cashed by, Jennifer Adams. (Exhibit J, copy of front and back of Check 2178).<sup>8</sup>

### **C. The Committee Took Corrective Actions While the Investigation Continued.**

#### **1. Senator Graham Was Advised of the Findings; Ms. Adams was Promptly Terminated.**

Once the Committee was able to collect what it thought were copies of all pertinent bank documents and complete its initial internal review, it became clear to Messrs. Hall and Farmer that Ms. Adams had committed a fraud on the Committee. They planned to discuss their findings with Senator Graham and to present him with evidence supporting their conclusion. At this meeting, which took place on or about June 11, 2007, Messrs. Hall and Farmer explained to Senator Graham, Mr. Bond, and Mr. Perry that their analysis indicated that Ms. Adams had misappropriated approximately \$26,000<sup>9</sup> of Committee funds for her own use. They also advised the group that some of the unauthorized disbursements had been reported accurately to the FEC as payments to Ms. Adams but that other disbursements had been falsely reported to the FEC as payments to other vendors. Senator Graham immediately decided that Ms. Adams should be terminated from her Senate office position (she no longer was employed by the Committee in any capacity) because of this breach of trust and that the matter should be turned over to law enforcement. Mr. Perry made plans to travel to South Carolina to terminate Ms. Adams.

<sup>7</sup> The Committee provides documentation to illustrate some of the examples of fraud revealed during its investigation. Each discovery that affected public filings regarding the Committee's finances has been provided in amended financial reports filed by the Committee. Should the Commission wish to review additional materials used during the investigation, the Committee will be happy to provide such detailed documentation.

<sup>8</sup> A few weeks after Ms. Adams had been terminated from her Senate position, law enforcement contacted Richard Quinn & Associates regarding the supposed November 1, 2002, payment that Ms. Adams had included in the FEC report. Law enforcement officials confirmed with Richard Quinn & Associates that it had never received such payment from the campaign. On information and belief, Richard Quinn & Associates provided the South Carolina State Law Enforcement Division ("SLED") with written confirmation of this fact.

<sup>9</sup> Though now known and reported to be much higher, at that time, the approximate amount of misappropriated funds was thought to be around \$26,000.

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Arriving unannounced at Senator Graham's Seneca office on June 19, 2007, Mr. Perry met with Ms. Adams and terminated Ms. Adams from her Senate office position. Ms. Adams was required to leave the office immediately, and was permitted to take only personal items that Mr. Perry examined and approved of her taking. Within the next few weeks, Ms. Adams sent a handwritten note of apology to Mr. Perry, which began: "I can't even begin to express how very sorry I am about everything I have done wrong regarding the campaign and the Senator. The betrayal of trust is inconceivable, and the theft and deceit is disgraceful." (Exhibit A, Letter from Adams to Perry.)

## **2. The Committee Promptly Notified Law Enforcement and the FEC.**

The Committee promptly advised both law enforcement and the FEC of their findings, the termination of Ms. Adams, and the commitment of Senator Graham and the Committee to continue to amend the public record and to assist law enforcement and the Commission in all ways possible. Following are details of those communications, how the criminal investigation progressed, and information regarding additional fraudulent activity by Ms. Adams that cooperation with law enforcement revealed.

### **(a) The Committee Promptly Notified South Carolina's State Law Enforcement Division ("SLED").**

Understanding that Ms. Adams' misappropriation of funds and fraudulent conduct was not only a breach of trust against the Senator and the Committee, but was also criminal, Mr. Hall promptly notified law enforcement officials of the potentially criminal conduct. By letter dated June 26, 2007, Mr. Hall, on behalf of Senator Graham and the Committee, notified Chief Robert M. Stewart of the South Carolina State Law Enforcement Division ("SLED") of Ms. Adams' fraudulent activity and requested an investigation into the matter. (See Exhibit K). For the next several months, the Committee, through Senator Graham, Mr. Hall, and Mr. Farmer, maintained regular contact with SLED, assisting the investigation in every way possible, including participating in interviews and providing SLED with written statements and other information. For example, the Committee compiled a detailed report for SLED in which it set out the fraudulent entries it had been able to uncover based on its review of documents available to the Committee at that time. (See Exhibit L (Oct. 3, 2007 statement of Mr. Farmer prepared for law enforcement considering specific actions by Ms. Adams); see also Exhibit M (Aug. 2, 2007 statement by Senator Graham).)

Based upon the information provided by the Committee, as well as substantial information and documents uncovered by SLED during its investigation, Ms. Adams was arrested on December 14, 2007, and charged with five counts of Breach of Trust with Fraudulent Intent and one count of Financial Identity Fraud. Ms. Adams is currently free on bail and awaits trial.

**(b) The Committee Promptly Notified the FEC.**

In addition to notifying law enforcement officials, the Committee also promptly informed the FEC that it had been the victim of a fraud and that, as a consequence, the Committee's campaign finance reports on file with the Commission likely contained inaccuracies and omissions. On June 20, 2007, the day following Ms. Adams' termination, Messrs. Hall and Farmer contacted Ms. Lauren Lien, the FEC analyst with whom they had been communicating regarding the Committee's review of its records. They explained to Ms. Lien their discoveries and requested guidance as to how the Committee should report the misappropriation of funds in order to ensure the public record accurately reflected the financial status and history of the Committee. On or around July 3, 2007, Messrs. Hall and Farmer participated in a telephone conference with Ms. Lien and several others from the FEC, including Branch Chief Marilyn Lee and Assistant Branch Chief Dana Brown.

Though the Committee asked Ms. Lien whether it should contact someone within the Commission's Office of General Counsel, Ms. Lien advised the Committee there was no need for such contact at that time. During this period, the Committee continued its review of all financial records from the 2008 election cycle and all records and information made available by law enforcement. This process involved analyzing thousands of contributions and disbursements, as well as bank records from both the Committee and Ms. Adams. Prior to SLED's involvement, the Committee had no access to Ms. Adams' personal banking records. This painstaking process culminated in the filing of comprehensive amendments to campaign finance reports dating back to October 17, 2002 for the 2008 election cycle. (See Exhibit N.) These amendments identified all known unauthorized distributions discovered to date and corrected all identified mistakes and omissions resulting from Ms. Adams' unlawful conduct. Additional disclosures to the FEC and amendments to the public record were made on January 26, 2008. (See Exhibit O.) Throughout this process, the Committee has been committed to ensuring complete and accurate information for the public record and has fully cooperated with the FEC.

During the third and fourth quarters of 2007 (and continuing to this day), the Committee stayed in continual contact with Ms. Lien in order to keep the Commission apprised of developments and to request FEC guidance on necessary corrections to the public record. For example, on or about August 10, 2007, Messrs. Hall and Farmer had another telephone conference with Ms. Lien in which they advised the Commission that SLED had discovered additional instances of fraud and misappropriation by Ms. Adams.<sup>10</sup> The Committee continued to have periodic telephone conferences with Ms. Lien to keep the Commission apprised of new findings, many of which were made possible by SLED's investigatory expertise and subpoena power.

<sup>10</sup> Through its subpoena power, SLED was able to obtain and review records that otherwise would have been unavailable to the Committee.

### III. COOPERATION BETWEEN THE COMMITTEE AND SLED LED TO DISCOVERY OF ADDITIONAL FRAUDULENT ACTIVITY BY MS. ADAMS.

Among the additional documents obtained by SLED were items indicating that Ms. Adams had gone to great effort to "cover her tracks" and avoid raising suspicion by anyone reviewing the Committee's records. Messrs. Farmer and Hall learned from SLED's investigation that their initial document-by-document review included bank statements and checks that Ms. Adams had "doctored" in her attempt to steer them away from discovery. As a result, the Committee contacted the bank and requested that the bank send copies of all account statements directly to Mr. Farmer. In their comparison of the statements provided from the bank itself to the accounting ledgers, the Committee confirmed that Ms. Adams had manipulated bank statements, checks, and reporting records upon which Messrs. Hall and Farmer initially relied in their review.

#### A. The Altered Bank Statement Example

Once Messrs. Hall and Farmer obtained bank statements directly from the bank, the Committee then began a second review of its documents using only the authentic statements provided directly by the bank. The Committee confirmed that Ms. Adams had done more than forge checks. She had altered bank statements and substituted the altered statements for authentic records. One example is the May 2005 statement from Community First Bank. The authentic May 2005 statement reports an electronic funds transfer to an American Express account that is not related to the Committee in any way. (See Exhibit P (timed-listed transaction in "Other Debits" section of correct bank statement).) However, among other alterations discussed below, the electronic funds transfer to American Express did not appear on the version of that bank statement that Ms. Adams maintained in the Committee's records (the version sent to Messrs. Farmer and Hall). (See Exhibit Q (the "doctored" statement materially altered by Ms. Adams for purposes of the Committee's records).) In addition to "erasing" that transaction, Ms. Adams made further significant changes to the May 2005 statement—changes illustrative of the lengths to which she went to "cover her tracks."

#### B. The Closed Account Example

As detailed above, when Messrs. Farmer and Hall assumed their responsibilities in 2006, the majority of the balance of the Committee's account with Community First Bank in Seneca was transferred to the new BR&T account maintained in Columbia. The Committee was no longer going to write checks from the Community First account and planned to close the account after the few remaining outstanding checks had cleared. Because Ms. Adams worked in the Seneca office, Mr. Farmer instructed her to close the Seneca account as soon as the checks had cleared.

In response to Mr. Farmer's instruction to get the checks cleared and to close the account, Ms. Adams indicated that she was "working on it." Mr. Farmer stated that Ms. Adams sent him the statements from that account. Ms. Adams sent several statements from 2005; the last one was the May 2005 statement, which was marked "ACCOUNT CLOSED" at the bottom of the

statement. (Exhibit Q.) Having no reason to suspect otherwise, Messrs. Farmer and Hall believed that the Community First account had been closed as indicated on the bank's statement.

Information from Ms. Adams' personal records and additional bank information obtained by SLED Agent Jason Wells during the criminal investigation revealed that, contrary to her claims and contrary to the bank statement upon which Messrs. Farmer and Hall relied, Ms. Adams had not closed the account in May 2005 as claimed. Through his analysis of her banking records, Agent Wells determined that Ms. Adams had altered Community First statements to show the account as "closed" when, in fact, she continued to use the account herself. In fact, documents maintained by Ms. Adams included a copy of the actual May 2005 statement with her handwritten notes and edits of how she intended to alter the statement before forwarding it to Messrs. Farmer and Hall. (Compare Exhibit R (copy of actual statement with her handwritten edits) with Exhibit Q (version of the statement sent to Messrs. Farmer and Hall).)

Agent Wells' review of authenticated banking records indicated that Ms. Adams used this account, even after she had reported it "closed," in order to make additional unauthorized disbursements from the Community First account for personal use. The Committee informed the Commission of these acts of fraud and has since amended its campaign filings to correct the public record.

#### **C. The "Photoshop" Example**

In the course of SLED's investigation, SLED determined that Ms. Adams had electronically altered bank records to conceal her fraud. A folder maintained by Ms. Adams contained images of cancelled checks and bank statements that Ms. Adams was in the process of altering via computer software. Forensic analysis of Ms. Adams' computer hard drive revealed various electronic images of these same cancelled checks and bank statements.

For example, Ms. Adams maintained several images of check number 2780 from September 2003, including: (a) an unaltered copy of the actual check processed by the bank, indicating Ms. Adams as the payee (Exhibit S(a)); (b) an altered version of the same check with no payee listed (suggesting that Ms. Adams used photograph-altering software to remove her own name) (Exhibit S(b)); and (c) a final, altered version of the check listing the Internal Revenue Service as payee. (Exhibit S(c).)

These documents provide insight into the sophistication of Ms. Adams' fraud and the lengths to which she went to conceal her behavior.

#### **D. Senator Graham and the Committee Notified the Public.**

In October 2007, once law enforcement and the Committee had spent several months working together to determine the extent of Ms. Adams' fraud, both Senator Graham and the Committee informed the public of the alleged misappropriation of campaign funds by a former employee. By letter to his contributors dated October 15, 2007, Senator Graham informed his

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supporters of these alleged misappropriations. (Exhibit T.) On October 16, 2007, the Committee issued a press release and spoke with media.

#### IV. THE COMMITTEE HAS WORKED DILIGENTLY TO DETERMINE THE EXTENT OF MS. ADAMS' FRAUDULENT CONDUCT AND TO REPORT SUCH INFORMATION TO THE COMMISSION.

The Committee has disclosed all of Ms. Adams' fraudulent activities discovered to date or of which it has been made aware by SLED. Messrs. Hall and Farmer believe that Ms. Adams acted alone in her fraudulent activities, and her handwritten letter of apology to Senator Graham's Senate Chief-of-Staff intimates the same. (See Exhibit A.) It is important to note that the fraudulent activity described above occurred prior to January 2005 when Messrs. Hall and Farmer assumed responsibility for the Committee.<sup>11</sup> Further, the fraud was discovered as a result of the review process and internal controls established by Messrs. Hall and Farmer beginning in 2005.<sup>12</sup>

As described above, the Committee has worked diligently and has reconstructed, as fully as possible, its records of contributions and disbursements for the entire 2008 election cycle. Based upon the information gathered through this process, the Committee has determined that Ms. Adams misappropriated for her own personal use approximately \$215,099.09 between November 2002 and July 2005. This amount includes unauthorized disbursements paid directly to Ms. Adams and unauthorized disbursements made to Ms. Adams' personal credit card lenders. (See Exhibit Q for list of unauthorized payments). Furthermore, records obtained from law enforcement show additional unauthorized payments of \$55,489.75 from the Committee between January 2002 and October 2002 and \$9,669.56 from the Committee to Elect Lindsey Graham between May 2002 and January 2003. (See Exhibit O). Thus, the total amount of embezzled funds identified from the Committee to Elect Lindsey Graham, the 2002 Lindsey Graham for Senate committee, and 2008 Lindsey Graham for Senate committee is approximately \$280,258.40. The Committee does not believe that Ms. Adams' conduct in any way impacted any federal election. The Committee continues to be in touch with law enforcement and, in the event that additional information comes to light on the extent of Ms. Adams' conduct, the Committee will make any additional reports and/or amendments as necessary.

In conducting its review and analysis, the Committee has not identified any excess contributions resulting from Ms. Adams' fraudulent activities. The Committee has, from time to time, discovered instances where a contributor has given in excess of the permitted maximums; however, the Committee cannot definitively state whether these resulted from

<sup>11</sup> With the exception of activity in the account with Community First Bank, which Messrs. Hall and Farmer believed to have been closed, all other fraudulent activity by Ms. Adams is believed to have taken place prior to January 2005.

<sup>12</sup> As noted above, the Committee's Treasurer prior to 2005 was Neil Byerley. Mr. Byerley left the Committee in 2005 and, sadly, passed away in January 2006. For this reason, he was unavailable to participate in or contribute to the review or investigation into Ms. Adams' conduct.

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simple clerical errors or otherwise. In each such instance, the Committee has promptly issued the appropriate refund and has made the requisite amendments to its financial disclosures. To the best of the Committee's knowledge, there are no refunds currently due contributors as a result of any excess contributions.

## V. THE COMMITTEE'S PROCEDURES COMPLY WITH REGULATORY REQUIREMENTS.

### A. The Committee's Pre-2005 Accounting Procedures Complied with Applicable Requirements.

Prior to 2005, the Committee's finances were conducted in a manner consistent with the FEC regulations governing accounting for contributions and expenditures.<sup>13</sup> Contributions to the Committee were recorded and maintained through the use of the Aristotle Campaign Manager™ software which captures and stores all required data (e.g., name and address of contributor, employer and occupation of contributor, date of receipt, and amount).<sup>14</sup> In addition, it was the Committee's policy to maintain full size photocopies of every contribution check of any amount.<sup>15</sup> With respect to disbursements, it was the Committee's policy to maintain a record of the name and address of each recipient, as well as the date, amount, and purpose of all disbursements made by or on behalf of the Committee.<sup>16</sup> In addition, the Committee maintained invoices and/or cancelled checks for all disbursements of any amount.<sup>17</sup> All credit card transactions were recorded by maintaining billing statements, receipts, and cancelled checks used to pay the credit card amount.<sup>18</sup>

In addition to the requirements of 11 C.F.R. § 102.9, the Committee had in place other internal controls over Committee finances. All bank accounts were maintained in the name of the Committee. The Committee maintained only one checking account, and all Committee expenditures were made from that account. Check writing authority was limited by a signature card on file with the bank, and no signature stamps or facsimile signatures were permitted. Starting in 1994 and up to 2005, the Committee's checking account was maintained at Community First Bank in Seneca, South Carolina. Check writing authority for this account was limited to the Committee's Treasurer and Assistant Treasurer, Noll Byerley, and Jennifer Adams, respectively. Throughout her tenure as the Committee's bookkeeper, Ms. Adams was the authorized agent of the Treasurer to be in charge of receipts, deposits, and reconciliation of records.

Unfortunately, adherence to the above-described procedures did not prevent the sophisticated fraud detailed in this Self-Report. The degree to which Ms. Adams' efforts to cover her tracks was successful is further illustrated by the findings of an FEC Audit Report on the Committee

<sup>13</sup> See generally 11 C.F.R. § 102.9 (2007).

<sup>14</sup> *Id.* at § 102.9(a)(1)-(3).

<sup>15</sup> *Id.* at § 102.9(a)(4) (requiring photocopies or digital images of contribution checks in excess of \$50.00).

<sup>16</sup> *Id.* at § 102.9(b)(1)(i)-(iii).

<sup>17</sup> *Id.* at § 102.9(b)(2) (requiring this information for disbursement exceeding \$200.00).

<sup>18</sup> *Id.* at § 102.9(b)(2)(ii).

for the 2002 election cycle. In a report released on or about June 24, 2004, FEC auditors issued certain findings related to errors and misstatements in the Committee's disclosures. In that Audit Report, however, the Commission found no evidence of unauthorized distributions or other evidence of embarrassment.

**B. In Taking Over the Committee's Accounting and Reporting, the Treasurer and Assistant Treasurer/Custodian of Records Implemented Appropriate Controls and Safeguards.**

**1. The Committee Reviewed the FEC's Statements of Policy and Guidelines.**

When Messrs. Hall and Farmer assumed responsibility for the Committee's operations in 2005, they, as described above, undertook a detailed review of Committee's financial history and established new systems of internal controls. These efforts led to discovery of Ms. Adams' fraud.

Since discovery of Ms. Adams' fraud, the Committee has analyzed the full extent of the scheme employed by Ms. Adams. In this process, the Committee has thoroughly reviewed the policy statements and guidelines recently promulgated by the Commission. Specifically, the Committee reviewed the Statement of Policy - Safe Harbor for Misreporting Due to Embarrassment;<sup>19</sup> the Policy Regarding Self-Reporting of Campaign Finance Violations (Self-Report Submissions);<sup>20</sup> the guidelines entitled Internal Controls and Political Committees,<sup>21</sup> as well as such accounting resources referenced within the Internal Controls and Political Committees guidelines.<sup>22</sup> (collectively "FEC Guidelines"). After careful review of these "best practices," the Committee found that it had already enacted the vast majority of the recommended controls in 2005 when the Committee's finances were restructured and Messrs. Hall and Farmer assumed their responsibilities. Additionally, both Messrs. Hall and Farmer have attended FEC conferences for candidate committees, as have two other campaign staffers who have regular involvement with the Committee's finances.

**2. The Committee Implemented Appropriate Corrective Actions Prior to Discovering the Fraud.**

As noted above, the Committee has always operated with only one checking account and all expenditures of the Committee have been paid out of this account. In 2005, as part of the Committee's financial operations transfer and restructuring, the Committee's checking account was transferred from the Community First Bank in Seneca, SC to BB&T in Columbia, SC. This account remains the sole checking account for the Committee. In addition to this checking account, the Committee also maintains separate accounts for Certificates of Deposit and accounts for Joint Fundraising Committees. ("JFC"). Consistent with FEC Guidelines, each account is maintained in the name of Lindsey Graham for Senate and associated with the

<sup>19</sup> 72 Fed. Reg. 16,695 (April 5, 2007).

<sup>20</sup> 72 Fed. Reg. 16,696 (April 5, 2007).

<sup>21</sup> Available at [http://www.fec.gov/law/policy/guidance/internal\\_controls\\_polcmtes\\_07.pdf](http://www.fec.gov/law/policy/guidance/internal_controls_polcmtes_07.pdf).

<sup>22</sup> See *Id.* at \*2.



Committee's IRS employer identification number ("EIN"). The mailing address for each account is the Committee's main office in Columbia, SC.

The only persons authorized to open or close Committee accounts are Senator Graham, Mr. Hall, and Mr. Farmer; authorization to open or close a Committee account requires two signatures. Similarly, Senator Graham, Mr. Hall and Mr. Farmer are the only campaign officials with check signing authority, and any checks in excess of \$2000.00 require two signatures. No facsimile signatures or signature stamps are permitted. In instances where obtaining signatures is impossible or impracticable, authorization may be given by one of the two required signatories through email confirmation identifying the date, payee, amount, and check number of the requested transaction.

Also in 2005, the Committee began utilizing Quicken® accounting software to manage the financial accounting records of the Committee. These bookkeeping records and the FEC compliance records, which are managed through the Aristotle Campaign Manager™ software, are maintained separately. Reconciliation of the Committee's bank account is conducted by Derrick Stubbs & Stith LLP ("DSS"), an outside independent CPA firm in Columbia, South Carolina. DSS has no check signing authority. Once the monthly statement reconciliation is completed, copies of all records are distributed to the Committee's Treasurer, Assistant Treasurer, and the campaign's Senior Advisor, Denise Bauld. In addition, prior to filing any FEC disclosure report, detailed ledgers from both Quicken® and Aristotle™ are generated quarterly and meticulously compared to ensure accuracy. No fewer than three individuals are involved in reconciling disclosure reports.

All incoming Committee receipts are handled by the Committee's Deputy Finance Director, Meghan Hughes. Ms. Hughes is charged with receiving and opening the Committee's mail, stamping "Deposit Only" on all checks received, making required copies of checks, preparing a deposit slip for those receipts, and depositing the checks in the Committee's account. If any receipts are received and not deposited that day, the Committee maintains a safe within a locked cabinet in its offices for overnight storage.

Since 2005, the Committee has also utilized the services of its outside CPA firm, DSS. All invoices for payment received by the Committee are reviewed by the Assistant Treasurer and, if approved, are sent to DSS for processing. DSS properly records the necessary information regarding this payment and subsequently draws a check for the requested amount on the Committee's checkbook. All disbursements are made on pre-numbered checks and no pre-signed checks are permitted. A copy of each invoice is physically attached to the corresponding check stub as evidence that the goods or services were received and the drawn checks are then sent back to the Assistant Treasurer for his, and where appropriate, one additional signature. The checks are then mailed to the appropriate payee. The person who delivers the checks to the U.S. Post Office for mailing is separate from the person(s) requesting, writing, or signing the checks.

In addition to these procedures, the Committee does not currently utilize wire transfers or debit cards, and all credit card transactions are logged in a manner consistent with all other campaign transactions. Credit card payments are made via check except when the payment

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due date is too close and an electronic payment is made to avoid a late charge. Monthly credit card payments via check are processed like any other invoice to be paid, and electronic payments are handled solely by the Assistant Treasurer with email approval of the Treasurer when the payment is over \$2000.00. The Committee maintains a petty cash fund in Columbia and one in Washington, D.C., but both funds utilize an imprest system and are limited to \$300.00. The Committee's Assistant Treasurer, Scott Farmer, is the campaign official in charge of the petty cash fund in Columbia, and Debbie Durkin, Office Manager for Senator Graham's Washington, D.C., Senate office, handles all petty cash transactions in Washington. Consistent with federal law, no cash disbursement in excess of \$100 is permitted.<sup>23</sup> The payroll functions for the Committee also are handled by DSS.

When reviewing the FEC Guidelines and the policies already in place, and in light of the fact that the individual responsible for the misappropriations and inaccurate disclosure statements was no longer with the Committee, the Committee determined that there was no need for any further changes with respect to the Committee's financial controls.<sup>24</sup>

## VI. CONCLUSION

By voluntarily providing the Commission with this report, the Committee reiterates its continuing commitment to ensuring the public record is accurate and complete. The Committee hopes that this submission demonstrates the Committee's diligence and thoroughness in responding to and investigating the unfortunate circumstances created by Ms. Adams' fraudulent conduct. The Committee has conducted a painstaking line-by-line review of every financial transaction since November 2002 and has filed numerous and detailed amendments to its public disclosures correcting every known and discernable mistake, omission, or inaccurate entry in the public record. Further, the Committee has maintained open lines of communication with the FEC and has cooperated in every way possible with the guidance and requests of the FEC.

The Committee also has appropriately responded to the criminal conduct of Ms. Adams by immediately reporting her actions to the appropriate law enforcement agency and has continued to cooperate with the ongoing criminal investigation in every way possible. Ms. Adams has been arrested and charged with five counts of Breach of Trust with Fraudulent Intent and one count of Financial Identity Fraud. Her charges are still pending in South Carolina. The Committee will continue its full cooperation with the prosecution as the case moves forward,<sup>25</sup> and the Committee intends to seek restitution for all losses suffered as a result of Ms. Adams' fraudulent acts.

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<sup>23</sup> 11 C.F.R. § 102.11 (2007).

<sup>24</sup> As the Commission notes in its Internal Controls and Political Committees guidelines, no single set of controls is required by the guidelines and "[i]t is up to each political committee to carefully consider what internal controls are valuable and feasible." *Id.* at \*9. In this case, the Committee has carefully considered these matters and is confident that the controls in place now, and since 2005, are adequate to prevent any further misappropriations and any related false reporting.

<sup>25</sup> To that end, the Committee does not intend to jeopardize these ongoing criminal proceedings in any manner by providing this self-report.

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The Committee would also like to highlight the fact that fraudulent conduct was discovered through the implementation of internal controls substantially similar to those set out by the Commission in subsequently issued FEC Guidelines. These controls were not put in place in response to a known fraud; rather, they were instituted by the Committee's current Treasurer and Assistant Treasurer/Custodian of Records in an effort to ensure that the Committee was operating reasonably and responsibly. The efficacy of these controls and of the comprehensive internal review is demonstrated by the fact that the fraudulent conduct was discovered and the Committee was able to respond appropriately. Moreover, at the time the fraud was discovered, Ms. Adams was no longer involved in handling the Committee's books or preparing any public disclosures. In light of these controls and the diligence of its current Treasurer and Assistant Treasurer/Custodian of Records with respect to the public record, the Committee would like to assure the Commission that this type of conduct is extremely unlikely to recur in the future.

Based upon the foregoing, the Committee hopes that the Commission will find that the Committee has acted appropriately and reasonably in discovering and rectifying the fraudulent activities of its former employee. The Committee respectfully requests that the Commission consider the actions of the Committee as mitigating factors and conclude that no further action is necessary.

Respectfully submitted,



Lindsey Graham for Senate

By: Kevin A. Hall, Treasurer and General Counsel

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Signed and sworn to before me this  
4th day of February, 2008

MATTHEW TODD CARROLL  
Notary Public  
State of South Carolina  
Commission Expires Oct. 13, 2015



Notary Public for State of South Carolina  
My Commission Expires: 10/13/15